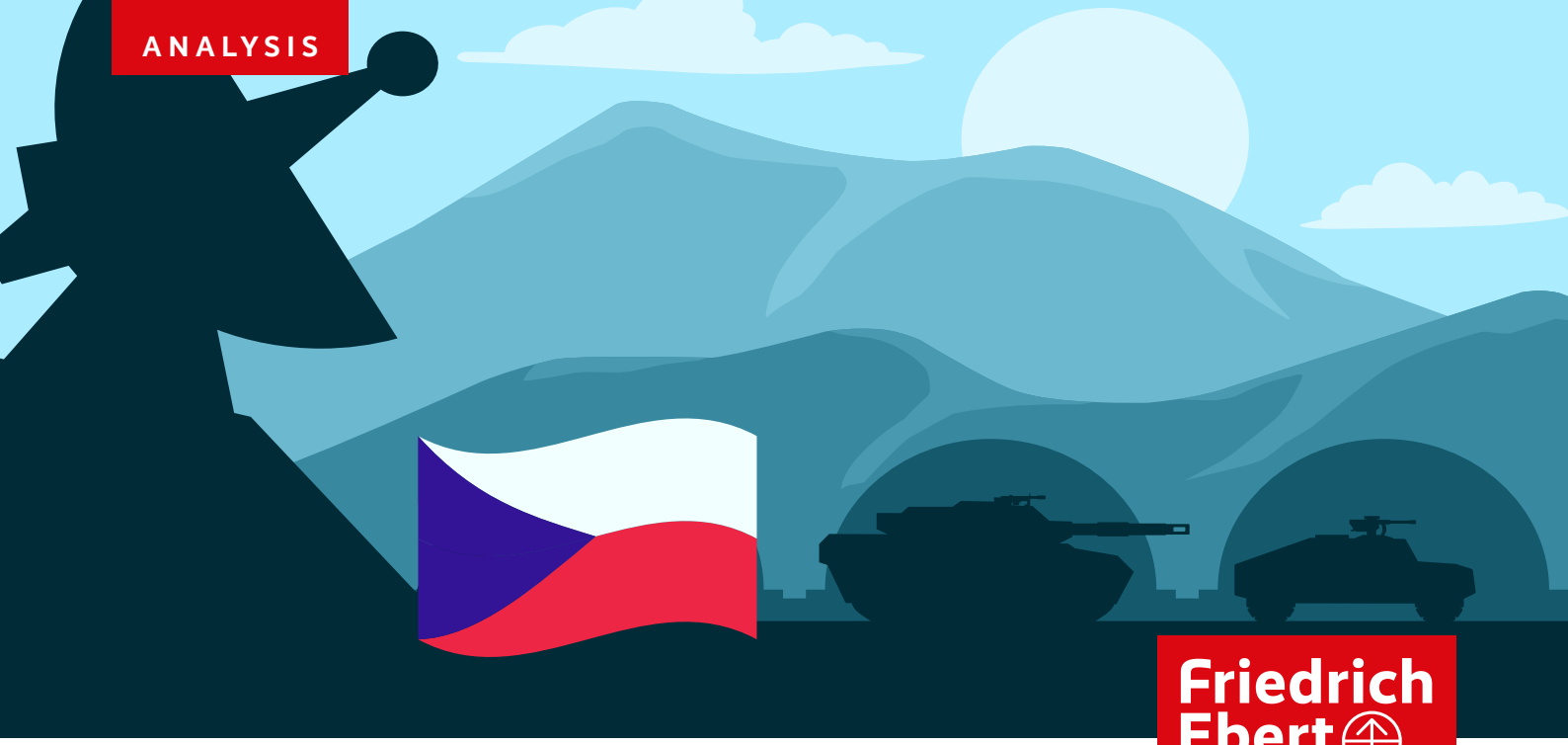

ANALYSIS

Friedrich Ebert Stiftung

Defence Industry in Central Eastern Europe

The Defence Sector in the Czech Republic: Past, Present and Future

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1. Introduction

The Czech defence sector has constituted a core pillar of the national economy since the establishment of Czechoslovakia in 1918, drawing on the industrial base developed in the Czech lands during the Austro-Hungarian Empire. Over the 20th century, it underwent a succession of profound transformations: from the interwar period, through the upheavals of the Second World War, to the Communist era, during which far-reaching state centralisation curtailed the sector's private, innovative, and market-led character. Following 1989, the industry once again operated within a liberal democratic and market-oriented framework. Few states possess a defence industrial trajectory shaped by such turbulence and historical layering (Rod, 2025, pp. 1–2).

Today, the Czech defence industry represents roughly 1% of national GDP and generates around €3 billion in annual turnover, approximately €2 billion of which derives from exports to 98 countries (Czech Chamber of Commerce, 2025; Novák & Kozelský eds., 2025). The sector builds on a long-standing Czech industrial tradition, as a result of which it consistently ranks the Czech Republic among the top five most industrialised countries in the EU (Vejskal, 2025). The sector is thus more than 90% export-oriented. Comprising some 400 firms, it directly employs about 20,000 people and indirectly sustains a further 50,000, offering stable, highly skilled employment across a broad spectrum of technical fields (Czech Chamber of Commerce, 2025; Novák & Kozelský eds., 2025). Moreover, in the Czech Republic, more than 1,000 industrial companies are registered in the Czech Republic as contributors to the defence industry (oneindustry, 2025).

Since 2022, the sector has experienced a striking and largely unexpected resurgence. Defence policy has moved to the forefront both in Prague and across Europe, with certain companies more than doubling their revenues in response to soaring demand triggered by Russia's war against Ukraine and acute shortages – particularly of ammunition – which have strengthened the competitive position of Czech firms (Rod, 2025). This elevated demand has produced notable spillover effects for the wider Czech economy, still recovering from the post-COVID-19 downturn and grappling with the relative decline of the automotive

sector. Former Czech National Security Advisor Tomáš Pojar has consequently identified the defence industry as a potential strategic engine of economic growth for the next two decades, provided that adequate political support is sustained.

At present, the sector is undergoing a renaissance unmatched in the past thirty years. It has also played a significant role in supporting Ukraine: Czech-produced drones, remotely operated systems, and assault rifles (soon to be manufactured directly in Ukraine) are in active use, while older and modern artillery systems such as DANA and DITA have been deployed on the battlefield. Beyond Ukraine, Czech passive radar technologies – including the Vera-NG system – are earmarked for Moldova, and numerous additional contributions remain undisclosed owing to their sensitive and strategic nature (Rod, 2025, pp. 1–2).

The following text will present an in-depth qualitative case study, designed to illuminate the character and key dimensions of the Czech defence industry. The next section provides a historical background of the sector's development. The third section examines the contemporary landscape in the Czech Republic, assessing the country's principal defence-industrial actors with regard to their production profiles, technological capabilities, and future trajectories. The fourth section analyses foreign investment and outlines potential international and European interdependencies. The fifth section focuses on the technological and industrial potential relevant to ongoing European rearmament efforts. The sixth section explores country-specific challenges related to industrial structure, labour availability, skills and training, and the broader political and societal context – factors likely to shape the sector's evolution in the years ahead. The final section assesses prospects for future cooperation and development of the Czech defence industry.

2. Historical Background of the Czech Defence Industry

The Czech defence industry possesses a history spanning more than a century, rooted in the industrial foundations of the 19th-century Austro-Hungarian Monarchy. During this period, the Czech lands served not only as the Monarchy's principal defence manufacturing hub but also as its industrial heartland, accounting for as much as 80% of its total industrial output. With the establishment of an independent Czechoslovak state in 1918 under President Tomáš Garrigue Masaryk, the new republic inherited a formidable heavy-industrial and engineering base. Yet its armaments production capabilities were unevenly developed: world-class artillery and armoured manufacturing thrived in Pilsen – anchored by the Škoda Works, founded in 1866 – and in Ostrava, while notable deficiencies remained in small arms, optics, aviation, and electronics. These gaps were swiftly addressed by new enterprises producing weapons both for the Czechoslovak Army and for export (Bauman, 2019; Rod, 2025, p. 2; Lehečka, 2024).

Building on this foundation, the Czech defence industry continued to flourish in the aftermath of the First World War. As an independent state, by the 1930s Czechoslovakia rose to become one of Europe's leading industrial powers, benefiting from a strong tradition of skilled craftsmen and of businessmen adept at exporting machinery and manufactured goods (IMF, 1990). This broader industrial capacity naturally facilitated the expansion of the defence sector. The Czech defence industry became a frontrunner among the world's leading armaments producers. Between 1934 and 1935, Czechoslovakia was the world's largest exporter of weapons, establishing itself as a global defence-industrial powerhouse. The aforementioned Škoda Works, for example, evolved into one of Europe's largest artillery, weapons, and ammunition manufacturers (Odbor komunikace MO, 2025).

Given this defence-industrial strength, Czechoslovakia became integral to Nazi Germany's military ambitions, culminating in the occupation of the Czech lands in March 1939. The Nazi leadership understood clearly that its strategic objectives could not be met without exploiting the capabilities of the Czech defence industry. Consequently, in the final months of the Second World War, Czech weapons factories – including the Škoda factories in Pilsen – were targeted and bombed in an effort to degrade the military potential available to the Nazi war effort (Odbor komunikace MO, 2025).

In the immediate aftermath of the Second World War, Czechoslovakia's arms industry was largely dismantled, only to be rapidly reconstructed under Soviet direction and within a state-controlled economic system – ultimately resulting in the loss of competitive advantage relative to the capitalist market economies of Western Europe and the United States (Author's note). From the 1950s onwards, production focused primarily on licensed Soviet designs, with Czechoslovakia emerging as a key Warsaw Pact manufacturer of aircraft and armoured vehicles. The sector nonetheless achieved surprisingly substantial technological success, producing thousands of aircraft such as the MiG-15, the Aero L-29 Delfín, and the L-39 Albatros trainer, as well as tanks (Rod, 2025, p. 3).

Despite the constraints imposed by Soviet oversight, the country-maintained niches of independent design expertise – particularly in small arms – whose quality often exceeded that of Soviet equivalents. A notable example is the vz. 58 assault rifle, which in many aspects outperformed the Soviet Kalashnikov AK-47 and subsequently appeared in armed conflicts across the globe (Author's note). Exports remained vital, with approximately 70% of production destined for foreign markets and accounting for 7–8% of national exports. Nevertheless, from the 1970s onwards, the defence sector's share of the wider economy began to contract as civilian industries expanded more rapidly (Rod, 2025, p. 3).

During the same period, much of the East-West strategic competition played out in the developing world, which absorbed up to 70% of global demand for armaments. By the late 1980s, however, many of these states faced acute financial crises, curtailing their capacity to import weapons. Early indications of decline emerged even as the Czechoslovak industry reached its peak in 1987, a mo-

ment shaped by global détente, evolving Soviet military doctrines, the INF Treaty, and progressing arms-control negotiations. That year, output reached a record 29 billion CZK – amounting to about 4% of GDP and nearly 8% of industrial production – with more than half destined for Warsaw Pact partners and roughly one-fifth for developing countries. Between 1984 and 1988, Czechoslovakia exported arms worth $2.7 billion (in 1985 prices), placing it seventh among global exporters, while defence spending peaked at nearly 38 billion CZK in 1988 (ibid.).

After the Velvet Revolution in 1989 and the collapse of the Communist regime in Czechoslovakia, the defence industry entered a new phase characterised by the re-emergence of a market economy and the restoration of independent defence planning. The dissolution of the USSR further reshaped the sector, resulting in the loss of many traditional export markets, although substantial exports continued for several years. Czech and Slovak companies were able to acquire large volumes of decommissioned equipment from the former Czechoslovak and successor-state armed forces and subsequently sell them to buyers in Asia and Africa (Šiška, 2023).

A further shock came with the breakup of Czechoslovakia at the end of December 1992. From January 1993 onwards, the Czech defence industry lost companies located on Slovak territory, even though the major defence-manufacturing enterprises had historically been concentrated in the Czech lands (Author's note).

Throughout the 1990s, however, the Czech defence industry confronted one challenge after another. Much of this turbulence stemmed from the privatisation of defence manufacturers, which had been state-owned during the Communist period, as well as from significant underdevelopment and insufficient research capacity within the sector. Moreover, once privatised, Czech producers were suddenly exposed to intense competition from Western Europe and the United States (Šiška, 2023).

The second half of the 1990s was shaped by preparations for NATO accession in Central Europe – in the Czech Republic, Hungary, and Poland – which, together with shifts in political leadership, injected new momentum into the transformation of the defence industry. This process came to be understood as the restructuring, modernisation, and integration of existing capacities. Although Europe's overall defence industrial base contracted during this period, it simultaneously consolidated modern capabilities capable of meeting a substantial proportion of the armed forces' requirements (Valouch, 2005, p. 114)

The 1990s were therefore a turbulent period of transition, marked by uncertainty and institutional experimentation. Since then, however, several companies have emerged as leading actors within the sector, most notably the COLT CZ Group and Czechoslovak Group, the latter of which has developed extensive international operations and established itself as an influential player in the global defence market (Rod, 2025, p. 3).

3. The Czech Defence Industry Nowadays

3.1. The Leading Czech Defence Industry Firms

Having outlined the historical foundations of the Czech defence industry, it is now appropriate to turn to the present and examine the contemporary landscape through a closer assessment of the sector's leading firms. At present, more than 1,000 industrial companies are registered in the Czech Republic as contributors to the defence industry. Within the Association of the Defence and Security Industry of the Czech Republic (AOBP) alone, over 200 defence firms are formally registered (oneindustry, 2025). Hence, given the diversity of companies directly or indirectly contributing to the Czech defence industry, it remains difficult to establish precise figures for the total number of firms involved.

Despite the high diversity of Czech industrial firms contributing to the Czech defence sector, it remains possible to identify and assess the industry's leading actors. The following Table 1 lists ten of the most prominent Czech defence firms, ordered according to their most recently traceable data (revenue, profit, estimated valuation, number of employees and ownership structure). The table also provides insight into each firm's core production focus.

Top 10 leading defence industry firms[1]

Table 1

Firm	Revenue 2022 (Billion CZK)	Profit 2022 (Billion CZK)	Estimated value (Billion CZK)	Number of employees in Czechia and abroad	Ownership	Count of subsidiary companies	Export destinations	Main production focus
Czechoslovak Group (CSG)	25.0	5.6	256	14000+	Private (CZ)	100+	70+	Ammunition, land vehicles, Tatra trucks, radar systems, aerospace (via acquisitions).
Colt CZ Group	14.6	2.3	44	3900	Private (CZ)	8	90+	Firearms (pistols, rifles), ballistic protection, US Colt and Colt Canada products.
STV Group	8.4	2.2	83	700+[2]	Private (CZ)	10	2/3 of production for NATO MSs	Ammunition (incl. large-calibre), artillery shells, tank and artillery equipment.
Aero Vodochody	4.0	0.19	n.a.	1300+	Private[3] (HUN 80%, CZ 20%)	n.a.	6	Military training aircraft (L-39NG), aerospace maintenance and upgrades.
Omnipol	1.0	n.a.	55	4000+	Private (CZ)	4	60+	Aircraft production (Aero Vodochody, Aircraft Industries), passive radar systems (ERA).
L.P.P. Holding	0.577	0.082	n.a.	n.a.	Private (CZ)	11	n.a.	Radar systems, aerospace technologies, light military vehicles (Supacat partnership).
MPI Group	0.25	0.124	n.a.	n.a.	Private (CZ)	3	n.a.	Medium-calibre weapons and ammunition (via ZVI), arms exports.
SVOS	0.216	n.a.	n.a.	150	Private (CZ)	n.a.	60+	Development and production of armoured vehicles.
Zeveta Bojkovice	0.129	0.16	n.a.	526	Private (CZ)	3	n.a.	Ammunitions including hand grenades.
Synthesia[4]	4.7	n.a.	n.a.	1300	Private (CZ)	n.a.	60+	Military-grade nitrocellulose for explosives.

Data in the Table 1 based on: Pšenička (2023); Rod (2025); Jahn (2025); Richter (2025); CSG (2025); Colt CZ Group SE (2025); COLTCZGROUP (2025); STV GROUP (2023); redakce (2023); AERO Vodochody (2022); aero (2024); Omnipol (2025); LPP Holding (2025); MPI (2025); Forbes (2025); SVOS (2025); Zeveta (2025); Synthesia (2025a); Synthesia (2025b)

1 The Sellier & Bellot firm is not reflected since it was purchased by COLT CZ Group in 2023 (ČTK, 2023).

2 The STV Group announced it intends to double the number of employees due to surging demand (Aktuálně.cz, 2025).

3 In 2021, Aero Vodochody was purchased by the Hungarian company HSC Aerojet Zrt (militär aktuell, 2021); Czech Omnipol holds a 20% share of the company (Ehl, 2025).

4 European leader in nitrocellulose manufacturing (Author's note).

Table 1 hereinabove provides the most comprehensive traceable dataset on the Czech Republic's leading defence firms. It reveals that three companies – Czechoslovak Group (CSG), Colt CZ Group, and STV Group – constitute the most consequential actors in the defence sector, each exerting meaningful international impact. Given their strategic and industrial weight, it is appropriate to briefly examine them in greater detail.

First, Michal Strnad, owner of **CSG**, built on a family enterprise founded by his father Jaroslav, who generated early profits in the 1990s through Excalibur Army, the forerunner of CSG, by trading decommissioned military equipment. Key expansion milestones included the acquisition of a former military repair complex in Přelouč (2005), control of the brake-system producer DAKO-CZ (2010), and a majority stake in Tatra Trucks (2013), alongside the cultivation of political networks and sponsorship of pro-Zeman entities. From approximately 1 billion CZK in turnover in 2012, CSG expanded rapidly through acquisitions and government contracts to become the Czech defence market leader, with momentum further accelerated by the war in Ukraine. In 2022, the group reported record revenues of roughly 25 billion CZK – almost double 2021 levels (14.4 billion CZK) – and an EBITDA of 5.6 billion CZK, again nearly twice the previous year. Continued growth throughout 2023 was influenced substantially by the prior acquisition of the Italian ammunition producer Fiocchi and its subsidiary Fiocchi (Pšenička, 2023; Rod, 2025).

Second, **Colt CZ Group**'s majority stakeholder, Michal Holeček, assumed control in 2014 of the firearms-focused group originally structured around Česká zbrojovka Uherský Brod, following collaboration with its former owner, Rudolf Ovčaří, whom he knew through major industrial privatisations. The group's current name derives from the 2021 acquisition of the historic U.S. manufacturer Colt and its production facilities in the United States and Canada, including Colt Canada. Holeček retains indirect networks into the current Czech political leadership and advisory circles linked to President Pavel, including through his charitable foundation, whose board was chaired by presidential advisor Petr Kolář and includes key decision takers in the security sector. In 2022, Colt CZ Group reported preliminary record revenues of 14.6 billion CZK, reflecting a 36.5% year-on-year increase, while net profit reached approximately 2.3 billion CZK – almost double the 2021 result. The company has stated that the war in Ukraine did not materially shape its financial results, yet battlefield systems produced by Česká zbrojovka, Colt, and Colt Canada have been delivered for operational use, alongside ballistic protection systems (vests and helmets) supplied through its subsidiary 4M Systems. The subsidiary has separately confirmed deliveries of ballistic protection equipment as well (ibid.).

Third, **STV Group** owner Jaroslav Drda oversees what is presently the Czech Republic's sole and strategically most important producer of large-calibre ammunition, including the country's only industrial capacity for heavy munitions. STV originated in the mid-1990s, when his father Václav founded STV Praha, initially focussed on trading surplus military material before acquiring substantial ammunition depots across northern and central Bohemia. Since 2015, Drda has held ownership of the engineering works in Polička via STV. In 2022, following a one-off "emptying of inventories," the group reported record unconsolidated revenues of 8.4 billion CZK and a pre-tax profit of 2.2 billion CZK, a figure nearly four times higher than in 2021. The company has explicitly confirmed substantial deliveries to Ukraine, including artillery and tank ammunition, as well as armoured battlefield systems and other heavy in-theatre platforms (ibid.).

Lastly, **Aero Vodochody**, the Czech Republic's largest aircraft manufacturer, has quietly undergone a significant ownership change since 2022: while 20% remains with the Czech defense group Omnipol, the remaining 80% held by Hungarian investors is now controlled through a complex structure centred on Magyar Aerojet Investment Asset Management. After former owner Kristóf Szalay-Bobrovniczky sold his stake upon becoming Hungary's defence minister, the ownership was reshuffled among figures closely linked to Hungary's political and business elite, including MOL CEO Zsolt Hernádi, associates of former MOL executives, Slovak-Hungarian billionaire Oszkár Világi, and most notably Árpád Habony, Viktor Orbán's influential but unofficial political strategist, who holds about 27% of the shares. The restructuring, partly routed through foundations, reflects typical Orbán-era strategies to secure assets, and it places Aero – producer of the L-39 Skyfox trainer and supplier to the Hungarian and Czech militaries – firmly within the orbit of Hungary's ruling power network, even as the company remains loss-making and awaits major new orders (Ehl, 2025).

3.2. The Czech Defence Industry Sectors and Exports

Having surveyed the Czech Republic's principal defence-industrial actors, it is now necessary to examine the structure of Czech defence-industrial production through the lens of export orientation. The Czech defence industry manufactures a wide and varied portfolio of defence products across multiple industrial segments. The key sectors comprise: ammunition and substances for explosives; production equipment and semi-finished products; small arms; land systems (including armoured vehicles, tanks, and infantry platforms); aircraft technologies; and electrotechnical systems (such as radars, communication suites, and associated components) (Rod, 2025, p. 4). Moreover, the majority of Czech defence firms also deliver defence-oriented services, including maintenance and repairs. A typical representative of this business model is MPI Group, which specialises in innovation, repair, and reconstruction programmes (Author's note). Examining the structure of Czech defence exports based on the latest 2022 data, Table 2 provides a percentage-based breakdown of the principal export categories, illustrating the proportional representation of each sector within total Czech defence-industrial exports. The data indicate that Czech defence exports are predominantly dominated by ammunition and substances for explosives, as well as by land systems.

Table 2

The structure of Czech defence exports by sectors in 2024

Sector	Representation in %
Ammunition and substances for explosives	44
Vehicles	22
Aircraft technologies	18
Electrotechnical systems	9
Production equipment and semi-finished products	4
Small arms	4

Data in the Table 2 based on AOBP (2024)

Zooming in on the export destinations reflected in Table 3, it is evident that Europe – comprising both EU and non-EU states – constitutes the dominant market for Czech defence exports. Additional export flows extend into Asia, Africa, and the Middle East, as well as North and South America, alongside Australia and Oceania.

Table 3

Military material and dual-use goods exports by region in 2024

Export destination	Representation in %
Other European countries	54
European Union	32
South East Asia	6
Middle East	4
Others	3
Sub-Saharan Africa	1

Data in the Table 3 based on AOBP (2024).

Moreover, when examining the countries constituting the leading export destinations by revenue, it is evident that the highest earnings are generated in the United States, India, and Poland. Table 4 outlines the principal export markets in relation to the revenues captured by Czech defence manufacturers.

Table 4

10 largest export destinations by country for the Czech defence industry in 2022[5]

Country	Representation in %	Revenue 2022 (Billion CZK)
USA	8.8	1.33
India	7.1	1.08
Poland	5.2	0.79
Morocco	4.8	0.73
Israel	4.1	0.63
Slovakia	4.1	0.62
Italy	3.9	0.58
Ukraine	3.6	0.54
Bulgaria	3.1	0.47
Ghana	3.1	0.47

Data in Table 4 based on Česká spořitelna (2023).

5 The most reliable publicly available data date from 2022. Given the subsequent increase in exports to Ukraine, it is likely that Ukraine now occupies a higher position in the ranking.

The most reliable publicly available data date from 2022. Given the subsequent increase in exports to Ukraine, it is likely that Ukraine now occupies a more significant position in the ranking. Since Russia's invasion, Czech defence exports to Ukraine have grown substantially, yet they continue to represent only a limited and often undisclosed share of the broader expansion of the Czech arms industry. In 2023, total Czech arms exports doubled year on year to a record CZK 60 billion, driven largely by the war in Ukraine and by European states replenishing stockpiles sent to Kyiv. Direct exports to Ukraine are frequently classified or described as marginal. Major firms such as the Czechoslovak Group, Colt CZ Group, STV Group, and Omnipol recognise Ukraine as an important destination but stress that most exports go to NATO countries and other global markets, with Ukrainian orders accounting for only a small percentage or remaining confidential for security reasons. Beyond direct deliveries, Czech companies are increasingly involved in technology transfers and industrial cooperation in Ukraine, including ammunition production and rifle assembly, signaling a shift towards longer-term strategic engagement (Němec, 2024).

Considering potential dependencies with regard to export patterns and business structure, Tables 2, 3, and 4 suggest that – given the breadth of the Czech defence-industrial base – the sector demonstrates a relatively high degree of resilience. This stems from the fact that Czech defence production is not concentrated in only one or two dominant defence-industrial categories or export destinations (Author's note).

4. Investments and National/European Projects

The Czech defence industry remains largely self-reliant and sustains its development predominantly through export activity and close cooperation with the Czech state. In 2024, Czech firms secured over 90% of public defence procurement contracts; however, these accounted for less than 25% of total contract value, as the highest-value acquisition programmes – such as the F-35 fighter jets and H-1 helicopter systems – involve Czech industrial participation primarily in non-strategic or low-impact roles (EY, 2024, p. 6).

This imbalance constrains the expansion of domestic industrial capacity and underscores the need for more substantial Czech involvement in strategic, high-value defence programmes, ideally commencing at the R&D phase. Concurrently, the Czech Republic's defence-industrial strategy remains insufficiently defined, generating persistent coordination inefficiencies between government stakehold-

ers and manufacturers. This further highlights that long-term capability development will hinge on deeper, technology-driven strategic partnerships – particularly those built around technology transfer and localised production (ibid.).

In pursuit of additional capital to support future development, the sector's three leading firms – CSG, Colt CZ Group, and STV Group – are publicly traded on the Prague Stock Exchange. This strategic posture is intended to draw in private investment and accelerate their technological and industrial development, with both domestic and foreign investors able to purchase company shares (Author's note).

A further avenue for the development of the Czech defence industry lies within the banking sector. However, in many cases banks remain reluctant to extend credit to defence manufacturers. While some institutions that previously avoided the sector have begun providing financial support, others continue to regard defence as an unsuitable or undesirable investment category – an approach criticised by industry leaders as unjustified discrimination. The European Investment Bank maintains a formal prohibition on financing weapons systems, explosives, and exclusively military technologies, limiting its support primarily to dual-use projects. This policy stance is widely understood to stem from its effort to safeguard its AAA credit rating and mitigate risks to its AAA rating, including potential impacts on its AAA credit rating and AAA rating. According to sector representatives, the bank considers pure defence-industry exposure a potential threat to its AAA rating. In parallel, several Czech commercial banks continue to refuse even fundamental financial services, with some declining to offer basic provisions such as company accounts, including the opening of ordinary business accounts for defence firms (Žižka, 2025; Rod in Gomez interview, 2025).

Czech defence firms may also seek to generate additional development capital through programmes funded by the European Defence Fund (EDF). However, according to AOBP Vice-President Dr Kristýna Helm, accessing the research and development (R&D) phase of European defence programmes remain exceptionally challenging, principally due to extensive administrative burdens and the structural design of European funding mechanisms. Schemes such as the EDF mandate the formation of multinational consortia comprising partners from at least three countries, frequently involving from 13 to 15 industrial or institutional participants. Such scale requires the sharing of sensitive technical data across a large partnership network, raising persistent strategic concerns relating to intellectual property theft, technology leakage, and the erosion of competitive advantage. Although all participating states confront similar vulnerabilities, French and German firms are widely viewed as holding a comparative edge, owing to more extensive institutional experience and stronger representation within EU bodies – allowing them to influence strategic priority-setting at earlier stages of programme development (Helm according to Francová, 2025).

While opportunities for Czech firms within these frameworks are comparatively limited (Helm according to Francová, 2025; see also Ehl, 2024), companies willing to engage in genuinely competitive pursuits can still secure meaningful success. At a European systems level, the Czech defence industrial base remains distinctive for the breadth and diversity of its production capabilities for a mid-sized state. This includes industrial capacity across both small and large-calibre ammunition, multiple categories of combat vehicles, aerospace manufacturing, and a foothold in emerging security domains such as AI, autonomous systems, and chemical, biological, radiological, and cyber defence technologies – along with capabilities relevant to cyber and ISR-adjacent architectures. Despite structural constraints, the sector retains strategic relevance within wider European rearmament trajectories (Helm according to Francová, 2025).

Last but not least, CzechInvest, in partnership with the Czech Ministry of Defence, launched the DEFENCE HUB initiative as a national response to NATO's DIANA programme, establishing a central information and acceleration platform designed to strengthen defence and dual-use innovation. The hub serves as a single point of contact that systematically maps and promotes national and European grant opportunities – including DIANA, the NATO Innovation Fund, and the European Defence Fund – while cultivating structured linkages between startups, established defence manufacturers, and public institutions. One of its core missions is to identify high-potential innovators and guide them through the complexities of multinational R&D consortia formation as well as DIANA applications, with an anticipated future role in operating the national DIANA Czechia accelerator as part of NATO's broader innovation network. The hub provides expert consultations, convenes industry events, facilitates international partner matchmaking, and supports early-stage technology incubation, all aimed at scaling strategic defence and dual-use capabilities (CzechInvest, 2025a).

Finally, the Czech government has introduced a new national support mechanism intended to help domestic defence firms secure financing to expand production capacity within the country. The state-owned export insurance agency EGAP will insure investments undertaken by Czech defence manufacturers – widely regarded within the sector as a critical precondition for commercial banks to issue loans – leveraging capital reserves originally earmarked under the Covid Plus programme. With 500 million CZK allocated, EGAP is positioned to insure loans up to a total value of 5 billion CZK, thereby unlocking potential credit lines amounting to 5 billion CZK. The initiative, formally approved by the Czech government, aims to fortify national defence preparedness, reinforce Czech industrial competitiveness, and mitigate long-standing dependencies on foreign supply chains. Government ministers noted that Czech defence firms have faced persistent and structural obstacles in accessing fundamental banking services, and that the new EGAP insurance programme will additionally extend to supporting research, development, and operating expenditures for export-oriented defence manufacturers. EGAP brings considerable institutional experience in underwriting defence-related exports, including platforms such as Aero Vodochody's L-39NG aircraft and Czech radar tech-

nologies. The agency is now expected to place increased strategic emphasis on enabling domestic defence-industrial expansion. In 2023, EGAP insured Czech exports valued at over 41 billion CZK, contributing to a cumulative portfolio of more than 1.1 trillion CZK backed since its establishment in 1992. The shift toward insuring industrial investment signals a broader national effort to enhance indigenous defence capacity, sustain employment in the defence-industrial base, and accelerate Czech contributions to NATO-aligned strategic production networks (MFCR, 2025).

5. Technological and Industrial Potential

The Czech defence industry undoubtedly possesses considerable technological and industrial potential, reflecting both the complexity of the sector and its product portfolio, and the historically well-established reality that many globally transformative innovations originated within defence research ecosystems (for example technologies such as GPS etc.). Czech industry is considered unusually diversified for a mid-sized country, demonstrating strengths across both small- and large-calibre ammunition, aerospace, autonomous systems, AI, and chemical or biological defence. This breadth creates substantial opportunity for domestic sub-suppliers and secures a durable foundation for future export expansion (CzechInvest, 2025b).

Czech defence and dual-use innovation further benefits from deeply institutionalised cooperation between universities, research centres, and defence manufacturers. This collaborative density is reinforced by the Czech Republic's unusually high concentration of technically specialised, comparatively high-quality engineering universities, enabling sustained joint R&D activity and technical knowledge pipelines into industry. Sector representatives caution, however, that meaningful defence innovation depends on iterative feedback loops, best generated either via real battlefield deployment – as presently evidenced in Ukraine, where combat conditions have accelerated rapid advances in unmanned systems – or through structured end-user testing, ideally conducted by national armed or security forces, even outside active conflict environments. Innovation is thus framed as an iterative, experimental cycle driven by operational validation, with effectiveness often only conclusively proven under combat conditions. Systematic end-user testing and combat-derived insights are therefore viewed as indispensable for sustained technological progression (Kristýna Helm according to BusinessInfo.cz, 2025).

Among Czech policymakers and industry figures, defence capabilities are increasingly framed not merely as instruments of national security, but as sources of long-term economic opportunity. The sector is widely assessed as capable of sustaining employment, improving national industrial tech performance, and evolving into a strategic engine of future economic growth, contingent on stronger technology-transfer partnerships, greater clarity in national defence-industrial priorities, leaner administrative processes, and deeper integration into international supply chains (CzechInvest, 2025b). It is generally considered by Czech experts that every crown spent by the state on purchases from the Czech defence industry brings multiple returns for the Czech economy (Czech Chamber of Commerce, 2025).

6. Country-Specific Challenges

Czech defence manufacturers benefit from a long-standing industrial base, yet it is widely acknowledged that the Czech Republic lacks a sufficiently large pool of highly skilled technical labour trained via vocational technical high schools or universities. According to Dr Kristýna Helm, while forecasts point to future labour shortages, the sector is not yet facing a systemic workforce crisis. However, gaps are already visible in highly specialised professions, notably among design engineers and explosives experts, where academic pipelines remain limited and much of the existing expertise sits with personnel nearing retirement age. The defence industry is therefore considered more generationally constrained and culturally conservative than fast-moving civilian technology sectors. Industry leaders emphasise that partnership decisions are shaped not only by commercial logic but by security considerations, as collaboration requires sharing highly sensitive systems-level knowledge, making trust and long-term reliability central to workforce and business development (Kristýna Helm according to Francová, 2025).

Within the political domain, Czech governments have historically been supportive of the defence sector, a posture logically underpinned by the sector's persistent contribution to national GDP. Czech policy elites routinely frame defence manufacturing as a foundational component of the national industrial economy, and successive administrations have actively endorsed the sector's role as one of the principal strategic engines of Czech economic performance. With regard to the social context, Czech society generally perceives the defence sector positively, with only minor counter-currents of opposition – primarily from ecological activist networks or ultra-left political grouping which, by national impact assessments, occupy an extremely marginal position in Czech political discourse and strategic industry influence (Author's note; see Vrabec, 2025).

7. Final Remarks: Assesment of Future Development and Cooperation

Assuming NATO's defence spending targets are implemented, a key question is whether this will translate into increased defence-industrial potential. If the majority of NATO members sustain higher defence expenditure – driven by a deteriorating security environment and the growing Russian threat – the Czech defence industry possesses considerable business growth prospects, not only domestically but across Europe and potentially beyond the continent (Author's note).

Despite these positive trends, substantial challenges remain. Although Czech firms secure roughly 90% of Ministry of Defence contracts by volume, they capture only around 25% of total procurement value, reflecting structur-

al imbalances that restrict domestic scaling in high-margin strategic programmes. Industry representatives also point to continued barriers to defence-sector financing, particularly under ESG frameworks and restrictive banking policies, even as market sentiment shows gradual improvement – illustrated by the marked growth of defence holdings within ESG-labelled funds since 2022 (Rod, 2025, pp. 7–8).

Another major impediment is the limited adoption of long-term procurement contracts by the Czech government, which industry leaders argue are essential to justify capacity investments over 15-to-20-year horizons. Additional constraints arise from political short-termism, fragmented industrial planning, underfunded national defence R&D, limited Czech influence in multinational priority-setting, and persistent administrative complexity within EU funding instruments such as the EDF. Sector leaders warn that any rapid expansion of defence spending must be coupled with long-term capability development, sustained public-private cooperation, and deeper integration into international defence partnerships. Without this, increased budgets risk being absorbed by inefficient, non-strategic acquisitions instead of strengthening industrial capacity or supporting domestic technological advancement (ibid.).

Moreover, there are significant expectations regarding how the Czech Republic will utilise funding from the SAFE (Security Action for Europe) programme. The Czech Ministry of Defence has submitted a plan to the European Commission outlining the potential use of up to CZK 52 billion from a SAFE loan, earmarked for the acquisition of Leopard 2A8 tanks, Tatra T-815 military vehicles, and part of the construction of the D11 motorway. The Commission is expected to assess the proposal by January, with loan agreements potentially concluded by March of next year. While submission of the plan is mandatory, it remains legally non-binding and serves primarily to preserve the option of drawing on the funds (Armádní noviny, 2025).

Finally, Czech defence firms remain comparatively under-represented in wider European defence programmes, largely due to bureaucratic and institutional constraints as outlined above – a gap that continues to differentiate Czech participation from that of more institutionally embedded Western defence partners. If the Czech defence industry is to prosper further over the next decade, the aforementioned challenges will need to be resolved despite the current obstacles.

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